2/12/81
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Financial Markets

Irving Trust

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Economic Research & Planning Division

Friday (Noon) Feb. 6, 1981

On balance, most rates moved up slightly over the week, with the largest increases noted in the long-term sectors. The uncertain pattern of day-to-day movements reflected market participants' continuing efforts to assess the outcome of the Treasury's large $8.5 billion quarterly refunding operation (as well as the outlook for further substantial Treasury offerings in the future), together with the scope and prospects of the new administration's economic policy. Also weighing on the market was the fact that the economy still has given little clear indication of the slowdown so widely expected. For example, the January unemployment rate reported Friday morning was unchanged at 7.4%. In that setting few if any expected the Tuesday meeting of the Federal Open Market Committee to endorse any tangible easing of the Fed's policy stance.

The standout exception to the general firming of interest rates was the Federal funds rate. Since the statement week ended January 7, when funds averaged 20.06%, the rate has dropped in every subsequent week, reaching an average of 17.19% in the week ended Wednesday. Thus far in the current statement week, funds appear to be trading comfortably at 17% or so. At that level, the funds rate stands in a reasonable relationship to the 13% discount rate (plus the 3% supplementary charge for frequent borrowers), given that net borrowed reserves appear to be holding in the region of $700 million. In addition, the pattern of seasonal reserve excesses that has contributed to the decline of the funds rate during recent weeks, despite the Fed's largely routine reserve-draining operations, is now over. Thus further downward movement of the funds rate is likely to be contingent on concrete progress in slowing the pace of monetary growth.

Ah, there's the rub--<u>which</u> monetary aggregate? M-1A is in a nosedive so far this year, while M-1B is zooming, due to the nationwide authorization of NOW accounts at the start of the year. M-2--not materially affected by the NOWs--grew at the top of its target range last year and should be strong in January. Since the Fed--prudently--is probably giving most weight to M-2 these days, it is hard to see how the near-term movements of the aggregates would point to reduced pressure on interest rates.

That does <u>not</u> mean that rates must move higher soon, as some participants apparently construed Chairman Volcker's congressional testimony this week to mean. Nevertheless, with the total corporate bond calendar well over $10 billion--about double the average level of the last several years--while Treasury financing needs are large, estimated by the Treasury at $36.5 billion for this quarter, one does not need much imagination to see visions of congestion in the intermediate- and long-term markets during the first half of this year. That could produce some momentary rate increases in the sectors involved.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

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Market Yields

	2/6/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	19.50%	20.00%	15.25%
Effective since	2/3/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	12.00
Federal Funds	17.00	17.25	13.00
Repurchase Agreements	16.65	16.50	11.75
U.S. Treasury Issues			
Bills			
3 months	15.75	15.45	12.30
6 months	15.33	15.00	12.84
1 year	14.50	14.00	12.63
Coupons			
2 years	13.78	13.25	12.00
4 years	13.33	12.95	11.40
7 years	13.10	12.75	11.60
10 years	13.02	12.70	11.55
Long Bond	12.66	12.30	11.60
Negotiable Certificates of Deposit-Secondary Market			
1 month	16.75	16.80	13.25
3 months	16.65	16.75	13.40
6 months	16.10	15.90	13.70
1 year	15.50	14.85	13.40
Banker's Acceptances			
1 month	16.50	17.00	13.15
3 months	16.40	16.60	13.43
6 months	16.10	16.05	13.73
Eurodollar Deposits			
1 month	17.44	17.63	13.81
2 months	17.44	17.50	14.19
3 months	17.44	17.38	14.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	15.50	16.00	8.00
1 month	16.00	16.25	13.00
3 months	15.50	15.75	12.25
Bank Holding Companies			
1 month	16.38	16.50	13.13
Dealer Placed:			
3 months	14.90	16.00	13.05
New AA Corporate Utility Bond	15.25	15.00	13.10
Tax Exempt			
6 month Project Notes	6.85	7.25	5.50
1 year AAA Bond	6.75	7.00	NA
5 year AAA Bond	7.40	7.15	NA
20 year AAA Bond	9.00	9.20	7.00

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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